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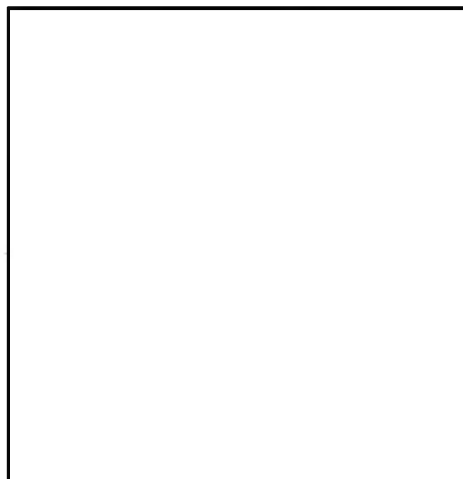


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DEFENSE INTELLIGENCE AGENCY

Intelligence
Appraisal



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USSR: THE SOVIET VIEW OF
DEFENSE EXPENDITURES (U)

14 APRIL 1977

DIA review(s)
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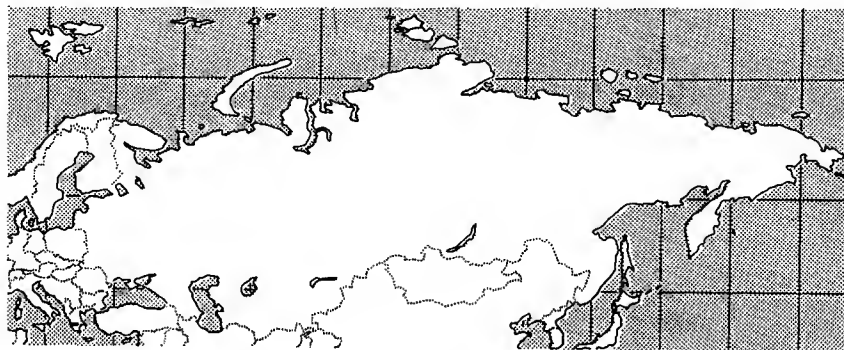
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USSR

*DIAIAPPR 130-77
14 APRIL 1977*

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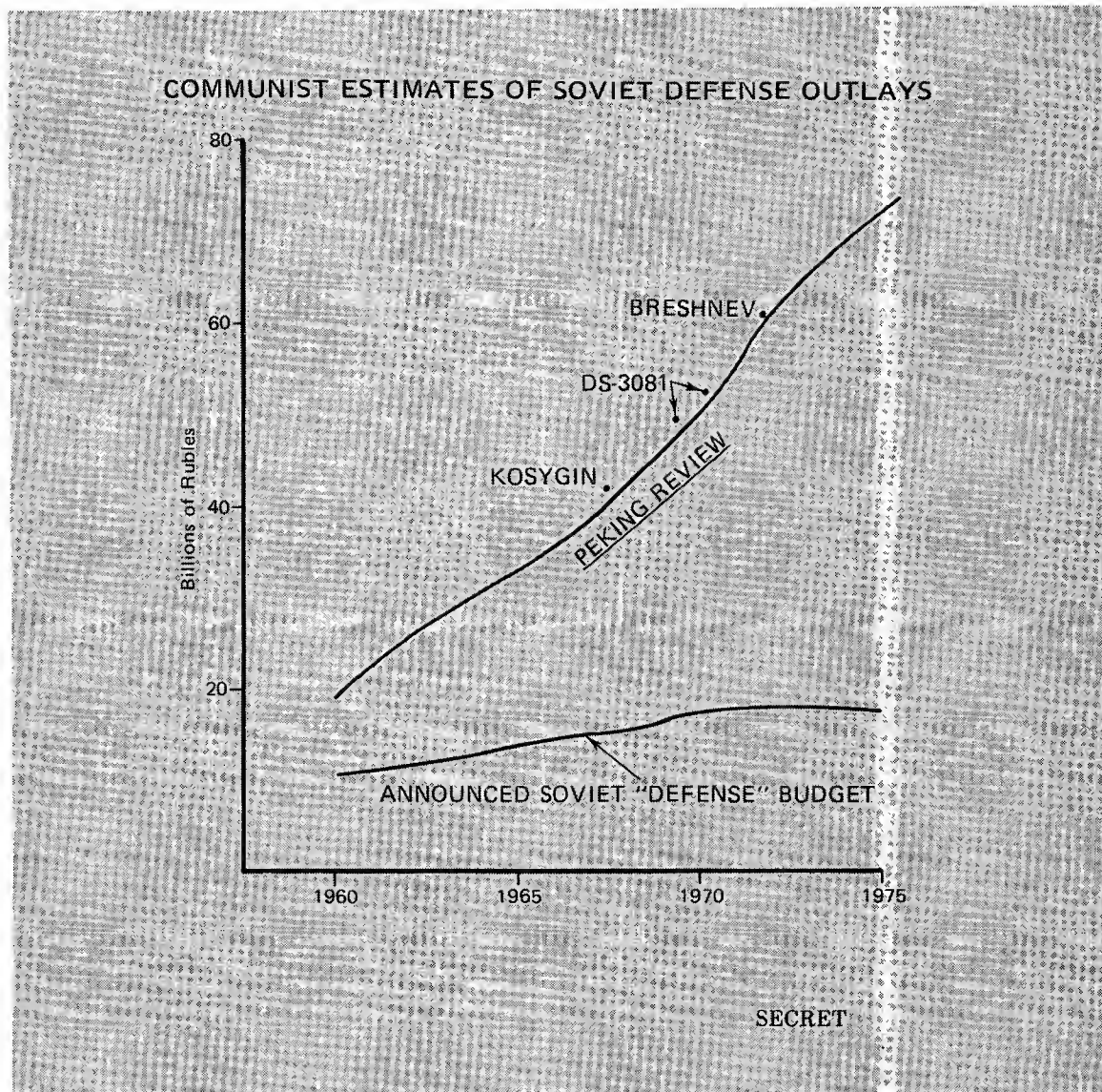


FIGURE 1

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SECRET**USSR: THE SOVIET VIEW OF DEFENSE EXPENDITURES (U)**Summary

(S) Information from communist sources indicates that the USSR has every intention of increasing its defense outlays despite the economic constraints confronting the country. This information suggests that, from 1970 to 1975, Soviet Defense outlays in the ruble prices of each year (current prices) grew between seven and nine percent annually and totaled about 70-billion rubles in 1975. These totals are higher than the US intelligence community's interim figures due primarily to differences in pricing. Soviet plans for 1980 apparently call for a defense outlay of about 100-billion rubles. This step-up in defense outlays suggests a Soviet willingness to increase the defense burden despite a slowdown in the growth of the overall economy.

(S) In an effort to represent the USSR's view of its defense outlays, DIA has been examining communist sources and reconstructing a ruble series. Not to be taken as a replacement for the official US estimates, this series presents the Soviets' perspective to help understand their attitudes and reactions. In projecting Soviet defense expenditures, DIA employs the USSR's Five-Year Plan data which tend to reflect Moscow's overoptimism.

Background

(S) This appraisal reviews information from communist sources regarding Soviet defense outlays and provides an exploratory analysis of implications for the future. As a response to a recommendation by the US Military Economic Advisory Panel of the Director of Central Intelligence, this appraisal is an effort to investigate an alternative method of assessing Soviet defense expenditures. The recommendation to pursue other methodologies followed from the US intelligence community's reassessment due

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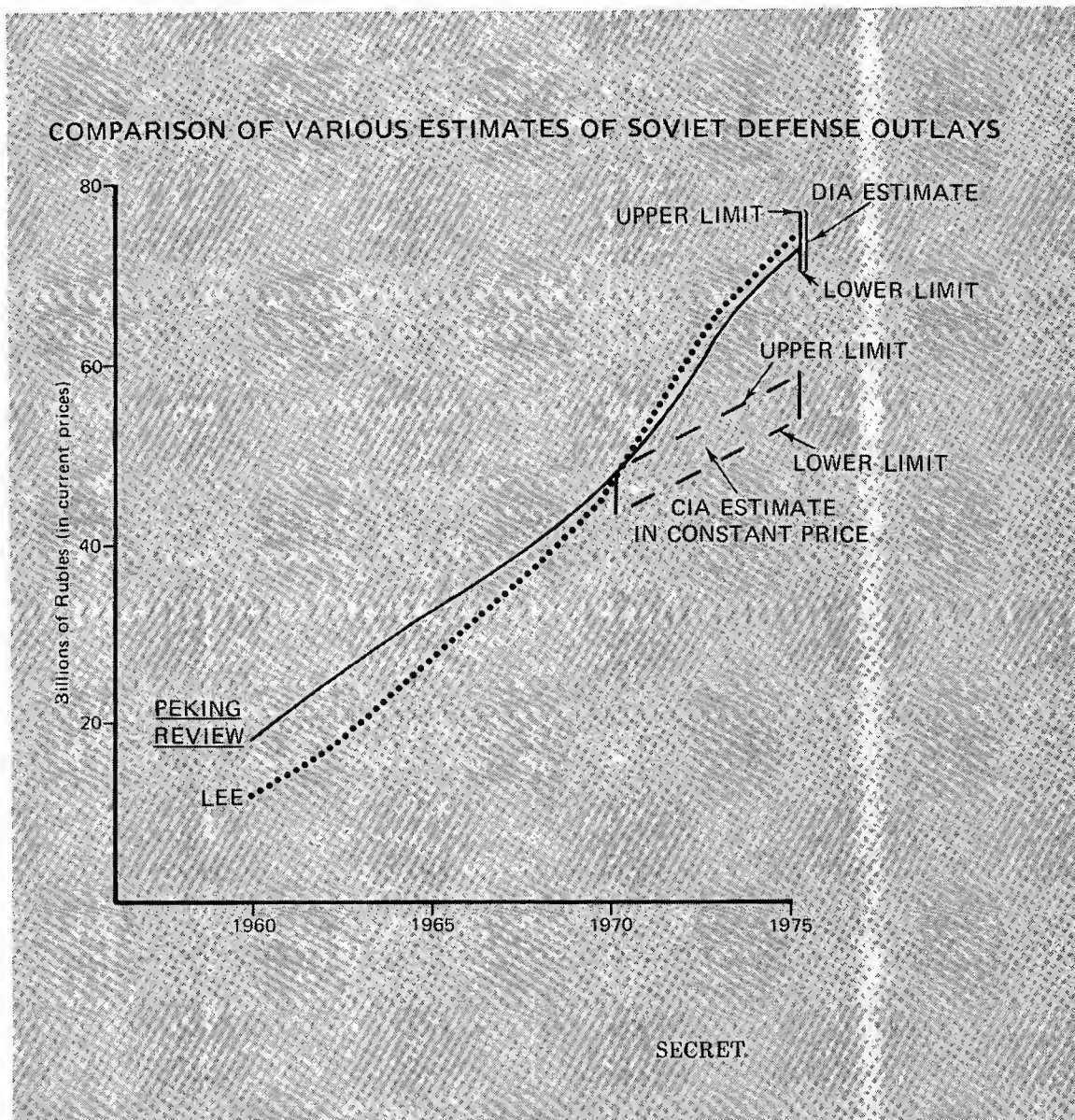


FIGURE 2

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published an interim estimate that significantly changed the Western view of Soviet military outlays. CIA has scheduled the annual publication of the intelligence community estimate of the USSR's defense expenditures in rubles for this spring.

Discussion

(S) The actual level and trend of Soviet defense expenditures, as Moscow views them, yield insight into the USSR's drive for increased military power. In 1973, Soviet Communist Party General Secretary Brezhnev reportedly said that the USSR is relying on the increase in military and economic power of the Warsaw Pact countries to create the potential by 1985 for Soviet dominance in relations with the West. The Tenth Five-Year Plan (1976 to 1980) restates that intent to "increase the defensive might of the country." Analysis of the information in that plan suggests that defense outlays will increase through 1980 at a rate exceeding the growth rate of the economy as a whole. This would mean a continuation of the rapid increases in defense outlays that occurred in the early 1970s as revealed by other communist sources.

(S) In recent years, a number of communist sources have cited estimates of Soviet defense outlays. These have differed considerably from Moscow's official "Defense" budget, which includes only a portion of total military outlays and is known to be manipulated for political purposes.

(U) Two November 1975 issues of the Peoples Republic of China weekly Peking Review gave the percentage of Soviet national income spent on the military in selected years. Applied to Soviet national income by use, these percentages imply the expenditure of about 72-billion rubles in 1975 (figure 1).

(S) Three Soviet sources provided additional information supportive of that given in Peking Review. In 1968, Premier Alexei Kosygin cited a dollar figure for Soviet defense spending. It amounted to approximately 40-billion rubles when converted at the exchange rate used by the Soviets

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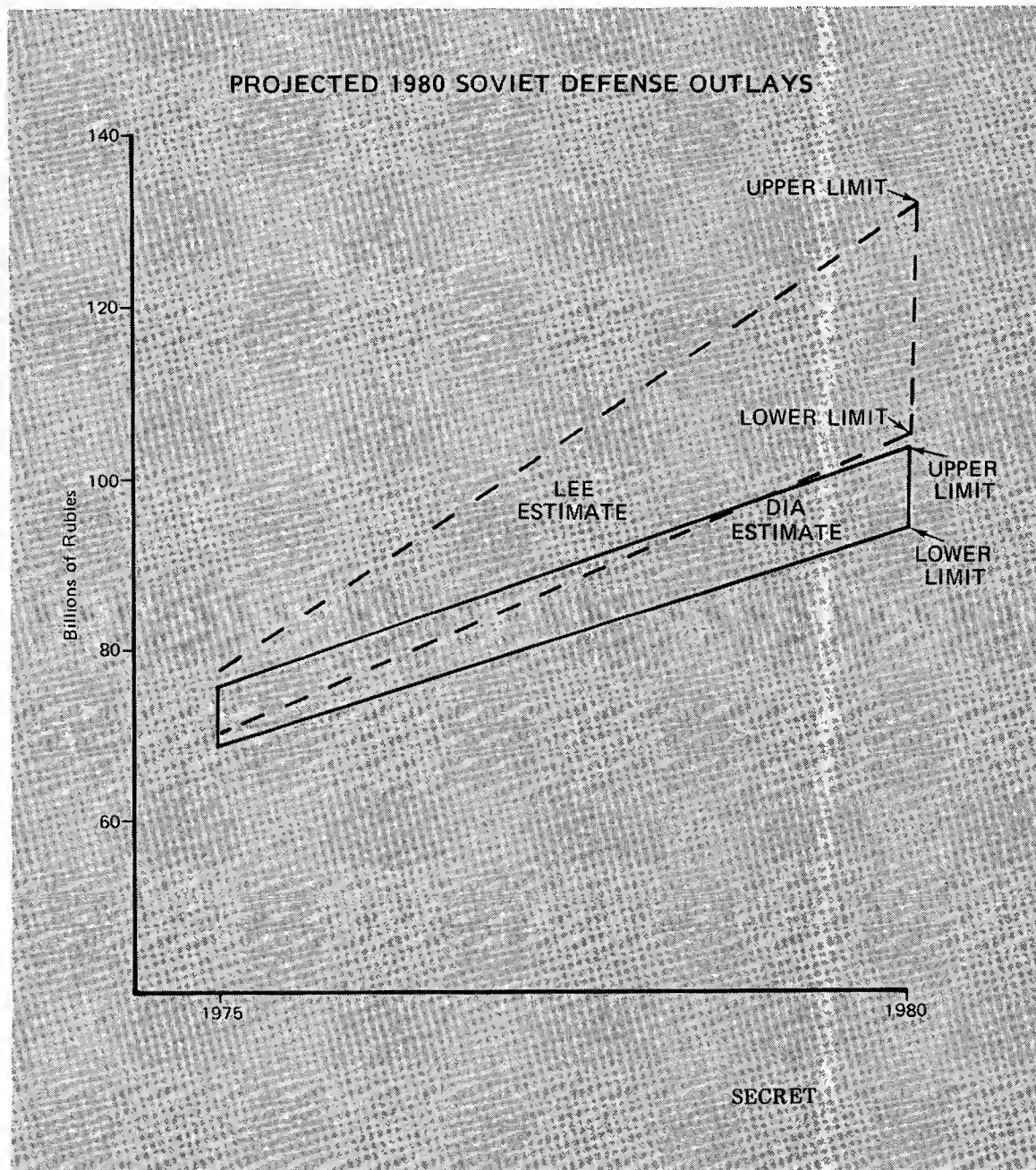


FIGURE 3

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to compare US and USSR national incomes at that time.

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Finally, General Secretary Brezhnev stated in 1972 that one-third of the state budget -- about 58-billion rubles -- was allocated to the military.

(U) Figure 2 compares the 1976 interim CIA estimate of Soviet defense outlays for the period from 1970 to 1975 with those obtained from the Peking Review. When using the Soviet definition of their defense categories, the CIA estimate for 1970, for example, is between 45- and 50-billion rubles. The upper limit of the independent estimates made by DIA consultant W.T. Lee, a recognized expert on Soviet defense expenditures, is also included. All three assessments agree on a 1970 total of nearly 50-billion rubles. Furthermore, according to the Chinese and Lee estimates, the rate of growth after 1970 and the 1975 total of just over 70-billion rubles are virtually identical.

(S) Based on these data and appropriate ranges of uncertainty, DIA estimates that the Soviets spent 69- to 75-billion rubles on defense in 1975. This reflects growth in Soviet defense outlays of from seven to nine percent per year between 1970 and 1975. DIA thus estimates that the Soviet economic burden was 14 to 15 percent of the 1975 Soviet gross national product (GNP) compared to the US defense burden of less than six percent.

(S) This estimate is higher than CIA's May 1976 interim estimate, which gave a 1975 Soviet defense expenditure of 55- to 60-billion rubles in constant 1970 prices and a four to five percent per annum growth rate between 1970 and 1975. CIA's direct costing approach probably has tended to understate the ruble value by not adequately accounting for the increased costs of new technologies. This problem is under study within the intelligence community and will be considered in future estimates.

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(S) The USSR's Tenth Five-Year Plan data are the basis for projecting Soviet defense outlays through 1980. By using Moscow's plan data, DIA's and Mr. Lee's estimates possibly overstate the Soviet Union's defense expenditures as plan data tend to be over-optimistic. Nonetheless, an estimate based on such data approximates the outlays as viewed by the Kremlin's leadership and has the advantage of being relatable to other Soviet economic information.

Outlook

(S) Faced with a slowdown in the rate of growth of the labor force, of investment, and of the development of natural resources, Moscow has anticipated lower growth rates in the economy through 1980. By increasing defense outlays, the Soviets could be contributing further to their economic problems. Although a 15-year plan has purportedly been in preparation to facilitate long-range planning, the present urgency within Soviet organizations to disseminate it may be due to long-range economic difficulties. This should not be construed, however, as necessarily affecting defense priorities.

(S) The USSR usually adheres to its five-year plans. While such plans, including those for defense, have been altered, the likelihood of that occurring before 1980 is not great. The Soviet economic data indicate that the USSR's defense expenditures will continue to grow in absolute terms and also as a share of the Soviet economic effort.

(S) DIA projects total 1980 Soviet defense outlays of 94- to 105-billion rubles in constant 1973 prices (figure 3). This calculation is based on three considerations:

--A Soviet national income growth of 24 to 28 percent by 1980 as stated in the Tenth Five-Year Plan.

--A continued increase in the state budget relative to the national income, as implied by both

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the Soviet Minister of Finance and the text of the Tenth Five-Year Plan. The state budget was 53 percent of national income in 1970 and 59 percent in 1975. It is expected to rise to close to 65 percent by 1980.

--The proportion of military outlays in the state budget remaining at the 1975 level of 32 to 35 percent rather than increasing as it did during the previous five years.

(S) Mr. Lee projects 1980 Soviet defense outlays as shown in Figure 3 on the basis of industrial output data. His estimate reflects a planned growth rate of nine to 11 percent per year between 1976 and 1980, which would be an increase from the growth rate of seven to nine percent for the 1971 to 1975 period.

(S) Both the DIA and Lee projections indicate that the burden of defense on the Soviet economy would increase if the overall economy grows less than five percent as planned. The projected DIA level of defense outlays in 1980 would then be 16 to 17 percent of Soviet GNP, a rise from less than 15 percent in 1975. (GDS-31 Dec 85)

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